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In The
Supreme Court of the United States

EBAY INC. and HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, LLC,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF FOR *AMICUS CURIAE* COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONERS

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BRIEF FOR *AMICUS CURIAE* COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION IN SUPPORT OF PETITIONERS

The Computer & Communications Industry Association (CCIA) submits this brief as *amicus curiae* in support of Petitioners eBay Inc. and Half.com, Inc., and respectfully requests that the Federal Circuit be reversed.

INTEREST OF *AMICUS*

The Computer & Communications Industry Association is a non-profit trade association dedicated to open markets, open systems, and open networks. CCIA members participate in many sectors of the computer, information technology, and telecommunications industries and range in size from small entrepreneurial firms to the largest in the industry.[1] CCIA members use the patent system regularly, and depend upon it to fulfill its constitutional purpose of promoting innovation. CCIA is increasingly concerned that the patent system has expanded without adequate accountability and oversight.

This brief addresses how the Federal Circuit's standard for injunctive relief reflects and reinforces other problematic Federal Circuit decisions. Neither CCIA nor its members have a direct financial interest in the outcome of this litigation. However, allowing the Federal Circuit's

[1] Counsel for a party did not author this brief in whole or in part. No person or entity other than CCIA, its members, or its counsel made a monetary contribution to the preparation or submission of this brief. Counsel for all parties have consented to the filing of this brief and letters of consent have been submitted to the Clerk of the Court.

decision to stand would subject CCIA members to increased patent litigation, burden information technology and software, and undermine the legitimacy of the patent system as a whole.

SUMMARY OF ARGUMENT

The first issue presented in this case is whether the standard for injunctive relief in patent cases as articulated in 35 U.S.C. § 283 is consistent with general principles of equity or there should be a *sui generis* standard of automatic injunctive relief as articulated below by the U.S. Court of Appeals for the Federal Circuit. The second issue is whether the Court should reconsider precedent on patent injunctions, namely, *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908). *Amicus* CCIA argues that the *sui generis* standard manufactured by the Federal Circuit conflicts with Section 283. CCIA does not believe that *Continental Paper Bag* conflicts with this principle, as its language is largely dicta, and it has been superseded by the 1952 rewrite of the Patent Act. If this Court concludes, however, that *Continental Paper Bag* cannot be rationalized with Section 283, then it is the former that must give way.

The Federal Circuit's standard of automatic injunctive relief is fundamentally hostile towards complex products, especially today's extremely complex, systems-based digital information technology. The value of a deeply embedded patented function or component may be miniscule in relation to the value of the finished product and the costs of bringing it to market. Under such conditions, the extraordinary leverage accorded by automatic injunctive

relief enables the patentee to extract settlements that approach the costs of shutting down an entire product line, far in excess of what a reasonable royalty is likely to be.

The undue leverage afforded by automatic injunctive relief belongs to a larger set of interrelated problems that are having a profound, often negative effect on intellectual property practice in the information technology sector. These problems are manifestations of the Federal Circuit's doctrinal championing of patent rights without due consideration for the economic characteristics of different innovation environments and the inevitable dangers that a rigid jurisprudence poses to large segments of the economy.

Following its unique bureaucratic imperative, the Federal Circuit has become, in the words of Judge Posner, "a booster of its specialty."[2] While championing the expansion in scope and scale of the patent system, the Federal Circuit has instituted a narrowed stewardship, which along with the institutional biases that result from a fee-funded U.S. Patent and Trademark Office (PTO), has resulted in a system that operates in a dangerously self-serving manner.

The Federal Circuit's expansionist jurisprudence has unbalanced and distorted the U.S. patent system, especially as it affects information technology, software, and business services. In effect, it has transformed patent law

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[2] Declan McCullagh, *Left Gets Nod from Right on Copyright Law*, C|Net News, Nov. 20, 2002, *available at* http://news.com.com/2100-1023-966595.html. *See also* William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 335 (2003) ("The Federal Circuit has indeed turned out to be a pro-patent court in comparison to the average of the regional courts that it displaced . . . ").

from a rigorous technical specialty into a general law of novelty that reaches into every sector and all aspects of human activity. The Federal Circuit has made patents more potent, easier to get and assert, and available for an unlimited range of subject matter. In addition, the PTO's own bureaucratic incentives have led it to grant patents in increasing number, and arguably, decreasing quality.

Together, these phenomena promote an inflationary spiral of patents in the information technology industry, fed by a perceived need and demand to assemble ever-larger patent portfolios. These effects produce anti-competitive behavior, foster more litigation, and undermine innovation.

It is against this backdrop of extraordinary growth and distortion that the Federal Circuit has endorsed a manifestly inappropriate standard for injunctive relief. Accordingly, the Federal Circuit should be reversed.

ARGUMENT

I. The Automatic Injunction Rule Exacerbates Existing Problems In The Patent System.

A recent study by the Federal Trade Commission (FTC) confirmed what many technologists have long believed: the U.S. patent system contains deep flaws that prevent it from efficiently performing its constitutional purpose of promoting the progress of science and the arts, particularly with respect to complex technologies. *See generally* Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) (FTC Report). Some of the problems flow from structural biases at the Patent and Trademark

Office. Others are rooted in a pattern of questionable Federal Circuit decisions that has made patents overly attractive, thereby increasing demand and putting pressure on a system that already resolves many questions in favor of patent applicants and holders. The automatic injunction rule fashioned by the Federal Circuit in the decision below significantly amplifies these other problems by placing a dangerously powerful weapon in the hands of a patentee who, but for the Federal Circuit's and the PTO's expansive policies, might not hold the patent to begin with.

Through ritual invocation of the patent incentive while ignoring external precedent, scholarly literature and empirical economic evidence,[3] the Federal Circuit has proved not only a booster of patents but a guardian of a lawyer's patent system, narrowly focused on the individual case but blind to the effects of patents on particular fields and indifferent to aggregate economic impact. This unsupervised expansion has triggered a staggeringly expensive arms race. As expressed by two prominent economists of innovation, "we converted the weapon that a patent represents from something like a handgun or a pocket knife into a bazooka, and then started handing out the

[3] The Federal Circuit's insularity is confirmed by research showing its reluctance to cite scholarship or even judicial decisions other than its own. Craig A. Nard, *Toward a Cautious Approach to Obeisance: The Role of Scholarship in Federal Circuit Patent Law Jurisprudence*, 39 Houston L. Rev. 667, 678-81 (2002). Unfortunately, the Federal Circuit's bottleneck position inhibits robust policy debate. Companies, academics, and practitioners alike are reluctant to speak critically of a court that has a near monopoly on patent law and a record of activism. All are acutely aware that they will inevitably appear before the court as advocates in particular cases and are understandably concerned about taking public positions that the court might view as antagonistic.

bazookas to pretty much anyone who asked for one, despite the legal tests of novelty and non-obviousness." Adam B. Jaffe & Josh Lerner, *Innovation and Its Discontents* 35 (2004).

By depriving district courts of the ability to fashion equitable relief, the Federal Circuit expresses misplaced confidence in an oversimplified vision of the patent system. As conceived by the Federal Circuit, the patent system need not attend to detail, nuance, circumstance, or change. This simplification of the rule of automatic injunctive relief is part of a pattern that includes issues raised by two other cases before this Court:

> (1) The collapse of subject matter eligibility into the utility standard. *See State Street Bank & Trust Co. v. Signature Fin. Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). This problem is currently before the Court in *Laboratory Corp. v. Metabolite Labs., Inc.*, No. 04-607; and
>
> (2) The emasculation of the nonobviousness standard by requiring a documented suggestion or motivation to combine in order to find a combination of known elements obvious. This issue is presently the subject of a petition for certiorari in *KSR International v. Teleflex, Inc.*, No. 04-1350.

The principles expressed by the Federal Circuit in these cases leverage each other by making patents more potent, easier to get and assert, and available for an unlimited range of subject matter.

A. The Federal Circuit Has Made Patents More Potent.

By requiring injunctive relief, the Federal Circuit has made patents extraordinarily potent. Under general principles of equity, injunctive relief may well make sense in many circumstances, particularly where there is a close correlation between patents and products. However, the Federal Circuit's automatic rule removes the opportunity to examine the full range of factors that courts of equity normally consider. It demands ignorance of the economic realities of the situation, while depriving defendants of their interests in equity and district courts of their equitable powers.

In information technology, an infringing function may represent only an infinitesimal fraction of the value of a marketed product that embodies a complex technology. *See* FTC Report, ch. 3, at 52. In determining damages, a court can evaluate the importance of the infringing function relative to the product as a whole. However, if injunctions are automatic, a patent on a single deeply embedded function can suddenly freeze an entire product line. The loss of the product line may well be catastrophic for the manufacturer, who faces the burden of extracting infringing functionality once a product has been designed, tested, debugged, packaged, and put on the market. In this context, economies of scale and scope, which have brought the benefits of information technology to millions at low cost, become a vulnerability. A single obscurely embedded patent can hold hostage an enormous sunk investment in manufacturing, distribution, and marketing of a costly, feature-rich, product. Under such circumstances, the mere threat of an injunction carries enormous weight, tilting

the negotiating table against the manufacturer in proportion to its investment.

In effect, this leverage allows the patent owner to free-ride on the innovation investments of others. The power and leverage to radically disrupt innovation and commerce in complex technologies is an unneeded and dangerous add-on to the patent incentive. This form of extortionate leverage does not exist as a practical matter in discrete technologies, and judges should not be forced to require it in complex technologies.

Even if the patent system were perfect in all possible respects, the Federal Circuit failed to justify its deviation from normal principles of equity. But the patent system is far from perfect. Other problematic decisions by the Federal Circuit and the institutional biases of the PTO multiply the damage caused by the automatic injunction rule.

B. The Federal Circuit Has Made Patents Easier To Get.

Prior to the Patent Act of 1952, the Supreme Court articulated a very high standard for patentability: an invention must evidence a "flash of creative genius" to merit a patent. *Cuno Eng'g Corp. v. Automatic Devices Corp.*, 314 U.S. 84, 91 (1941). The current Act, drafted by two patent attorneys assigned to serve as staffers, *see* Giles S. Rich, *Congressional Intent – Or, Who Wrote the Patent Act of 1952* in *Patent Procurement and Exploitation* 61, 68 (BNA 1963), contained the present language on the "person having ordinary skill in the art" (PHOSITA) test, which effectively buried the subjective determination within a superficially objective standard while putting the

burden of showing obviousness on the examiner. *See* 35 U.S.C. § 103(a). This test appeared to overrule the Court's *Cuno* standard. The Court interpreted this new standard in its 1966 *Graham* trilogy. *Compare* Rich, *supra*, at 76 n.21 *with Graham v. John Deere Co.*, 383 U.S. 1, 15 (1966) (quoting § 103(a)). *See also United States v. Adams*, 383 U.S. 39 (1966).

The Federal Circuit has since further lowered the standard by holding that combinations of known art are not rendered obvious unless there exists a specifically documented suggestion or motivation to combine them. *See Arkie Lures, Inc. v. Gene Larew Tackle, Inc.*, 119 F.3d 953, 957 (Fed. Cir. 1997); *In re Lee*, 277 F.3d 1338, 1345 (Fed. Cir. 2002) (rejecting "common knowledge and common sense" in favor of requiring documentation). While purporting to reduce subjectivity, the requirement of documentation effectively sidesteps the PHOSITA test and reduces nonobviousness into a mere elaboration of the novelty requirement. Combinations of known art are enormously important in information technology where new elements are rare and most innovation routinely combines known elements in new configurations and designs. Many Internet patents are in effect combinations of the Internet and known business practices. *See, e.g.*, U.S. Patent No. 5,794,207 (issued Aug. 11, 1998) (reverse auctions on the Internet). The FTC has recommended that this special permissive treatment of combinations be eliminated. *See* FTC Report, Exec. Summ. at 11-12 (Recommendation 3b).[4]

[4] This issue is presented in the petition before the Court in *KSR International v. Teleflex, Inc.*, No. 04-1350.

The Federal Circuit has also liberalized the standard for nonobviousness in the application of the secondary factors enumerated in *Graham*, 383 U.S. at 16. The FTC report recommends a reformulation of the commercial success factor to ensure that commercial success is attributable to the patent in question rather than other circumstances or product features. *See* FTC Report, Exec. Summ. at 11 (Recommendation 3a).

C. The Federal Circuit Has Made Patents Easier To Assert.

In addition to making patents easier to get, the Federal Circuit has made patents easier to assert by cloaking them in an artificially enhanced presumption of validity, so that challengers must show by "clear and convincing" evidence that the patent should not have been granted. *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1549 (Fed. Cir. 1983).

The strength of this presumption is not justified because of the ex parte nature of the examination, the limited time available to the examiner, and the fact that the burden is on the examiner to show that the applicant is not entitled to a patent. *See* FTC Report, Exec. Summ. at 8-10 (Recommendation 2) (proposing adoption of "preponderance of the evidence" standard); *id.*, ch. 5, at 26. The unjustified presumption compounds the problem of declining patent quality, as is evidenced most clearly in the information technology sector. *See* Stephen A. Merrill et al., National Research Council, *A Patent System for the 21st Century* 44-48 (2004). This artificially elevated presumption of validity provides patent holders undue

leverage and gives speculators an incentive to acquire and assert questionable patents.

D. The Federal Circuit Has Made Patents Available For An Unlimited Range of Subject Matter.

The controversial extension of patents to pure software and then to business methods is the product of Federal Circuit decisions that conspicuously sidestep Supreme Court precedent.[5] *See Gottschalk v. Benson*, 409 U.S. 63 (1972); *Parker v. Flook*, 437 U.S. 584 (1978); *Diamond v. Diehr*, 450 U.S. 175 (1981). By virtually abolishing subject matter limitations on the patent system in a series of cases culminating in *State Street Bank & Trust Co. v. Signature Fin. Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999), the Federal Circuit has single-handedly transformed patent law from an exceptionalist regime tailored to technology to a generalist regime for all areas of human activity. *See* John R. Thomas, *The Patenting of the Liberal Professions*, 40 B.C. L. Rev. 1139, 1163-64 (1999).

Yet the extension in these new directions – on the one hand into the many elements of software and, on other hand, into non-technical business processes – has overwhelmed the administration of the patent system. Because

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[5] As CCIA and other *amici*, including IBM Corporation, argued to this Court in *Laboratory Corp. v. Metabolite Labs., Inc.*, No. 04-607, the judicial allowance of business method patents, justified by an out-of-context quote from a Congressional committee report, has created more uncertainty and competitive concerns than any other recent development in patent law.

software functions at so many different levels of granularity ranging from code-level algorithms to program features to business methods (most of which are implemented in software), it creates opportunities for claiming patents at multiple overlapping levels of abstraction.

Nearly forty years ago, a Presidential Commission warned against software patents because "all inventions should meet the statutory provisions for novelty, utility and unobviousness and [software] cannot readily be examined for adherence to these criteria." President's Commission on the Patent System, *To Promote the Progress of Useful Arts in an Age of Exploding Technology* § IV (1966). The poor quality of the business method patents granted in the wake of *State Street* spurred the PTO to launch a special initiative that included a second level of review. *See* Notice of Roundtable on Computer-Implemented Business Method Patent Issues, 65 Fed. Reg. 38,811, 38,112 (June 22, 2000). According to the PTO director, this initiative cut the allowance rate in target class 705 ("Electronic Commerce") from 75% to 25%. *See* David Streitfeld, *Note: This Headline is Patented*, L.A. Times, Feb. 7, 2003, at A1. Despite this remarkable impact, indicating both the effectiveness of the program and the dire need for quality control, and an FTC recommendation that the practice be expanded to other economically important areas, second-level review has not been formally introduced outside of class 705. *See* FTC Report, Exec. Summ. at 14 (Recommendation 5c).

The patent system's expansion into business methods has engendered the most common and visible complaints about patent quality and the negative effects of patenting. The FTC sector-by-sector analysis shows that patent quality and the role of the patent system in innovation is

perceived most negatively in the software and Internet sector. *Id.*, ch. 3, at 44. Accordingly, the FTC recommends considering "possible harm to competition – along with other possible benefits and costs – before extending the scope of patentable subject matter." *Id.*, Exec. Summ. at 14 (Recommendation 6) (capitalization omitted). The negative U.S. experience with patents in these areas has crystallized consensus in Europe against business method patents, and contributed to the failure of a directive on "computer-implemented inventions" that would have validated the European Patent Office's relaxed standards on software patents.[6] The difficulties experienced in the software and Internet sector contrast dramatically with the perceptions in the pharmaceutical industry, which views patents as essential to protecting products. *See id.*, ch. 3, at 14, 50-56.

E. The PTO's Bureaucratic Interests Undermine Patent Quality.

The constellation of automatic injunctive relief and other Federal Circuit decisions coincides with the shift to fee-funding for the PTO in 1990. Fee-based funding gives the agency an incentive to increase the overall number of patent applications, grants, and maintenance fees in order to maximize its budget. Fee-funding inspired a new

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[6] *See "Should Patents be Granted for Computer Software or Ways of Doing Business?" The Government's Conclusion*, United Kingdom Patent Office, March 2001, *available at* http://www.patent.gov.uk/about/consultations/conclusions.htm; European Parliament News, *Software patents: the 'historic vote' in the European Parliament brings the battle to an end*, July 9, 2005, *available at* http://www.europarl.eu.int/news/public/focus_page/057-1002-255-9-37-909-20050819FCS01001-12-09-2005-2005/default_en.htm.

mission for the PTO's patent business, "to help customers get patents" and an explicitly expansionist performance goal: "Help protect, promote and expand intellectual property rights systems throughout the United States and abroad." *See* U.S. Patent and Trademark Office, *Corporate Plan 2001*, at 18, 23.

For example, the agency's internal incentive system rewards examiners for dispositions, thereby discouraging them from contesting claims (which only delays final dispositions). *See* Robert P. Merges, *As Many As Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 Berkeley Tech. L.J. 577, 607 (1999). The result has been a significant diminishment in patent quality, as reflected in an allowance rate possibly as high as 97 percent when continuations are taken into account. *See* Cecil D. Quillen, Jr. & Ogden H. Webster, *Continuing Patent Applications and Performance of the U.S. Patent and Trademark Office*, 11 Fed. Cir. B.J. 1, 3 (2001).[7] Under the Federal Circuit rule, however, the threat of automatic injunctions will discourage firms from disputing these low quality patents.

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[7] The FTC, employing a PTO calculus, suggests that the rate is between 77-81 percent in recent years. *See* FTC Report, ch. 5, at 6 & n.42. Landes and Posner note that "these built-in tendencies for bias are exacerbated by the Federal Circuit's own bias in favor of upholding the validity of patents." Landes & Posner, *supra* note 2, at 352.

II. By Exacerbating The Patent System's Problems, The Automatic Injunction Rule Encourages Litigation And Impedes Innovation.

A. The Automatic Injunction Rule Encourages Litigation.

Given the inherently rich functionality of information technology, these phenomena – the automatic injunction rule, the Federal Circuit's other expansive patent jurisprudence, and the customer orientation of the PTO – have triggered a patent arms race. Facing potential liability on a vast scale, companies in the information technology sector hedge their bets by filing for hundreds of patents, expecting that "mutually assured destruction" will deter others from asserting patents against them. FTC Report, ch. 3, at 35-38.

This deterrent value is increasingly formalized in cross-licenses and non-assertion agreements that provide insurance against litigation. These cross-licenses also create insurance against competition, however, by permitting companies with large portfolios to extract "balancing payments" from smaller competitors. To sustain cross-licensing, companies engage in "portfolio racing" to ensure a steady stream of patents into their portfolios. Hence, the demand for patents keeps rising, perpetuating the arms race.

The density of patents in this innovation environment means that inadvertent infringement becomes unavoidable. This phenomenon reinforces the inflationary cycle. As Cisco observed before the FTC, "[t]he only practical response to this problem of unintentional and sometimes unavoidable patent infringement is to file hundreds of patents each year ourselves, so that we can have something to bring to the

table in cross-licensing negotiations." *See Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy: Hearings Before the Federal Trade Commission*, Feb. 28, 2002 (statement of Robert Barr, Vice President, Worldwide Patent Counsel, Cisco Systems, Inc.) *available at* http://www.ftc.gov/opp/intellect/barrrobert.doc.

While portfolio accumulation is a rational strategy against present and potential competitors, it provides little protection against patent speculation by non-producers. Easily asserted patents, endowed with automatic injunctive relief, become potent weapons in the hands of non-producing patent firms, sometimes referred to as "trolls." These trolls profit solely from holding up producers, and therefore have no need for cross-licenses and no fear of mutually assured destruction. *See* FTC Hearings, *supra*; FTC Report, ch. 3, at 38. The trolls, therefore, are free to pursue aggressive litigation strategies based on questionable patents, which often yield settlements far in excess of the patents' true inventive contribution. Ultimately, these phenomena, stoked by the automatic injunction rule, have fueled an exponential increase in the amount of patent litigation. *See* Landes & Posner, *supra*, at 347-52 (finding statistical evidence that Federal Circuit has caused increase in rate of growth of patent litigation).

B. The Federal Circuit's Rule Impedes Innovation By Ignoring The Changing Nature Of Innovation.

Equitable principles allow courts to respond to particularities in conditions and circumstances that may not be foreseeable in legislation or precedent, both of which are predisposed to fix concrete problems that already exist. Yet the nature of innovation has changed greatly over the

past two centuries. The patent system itself has expanded to address a far greater variety of subject matter, a far greater range of inventive activity, and a far greater scope of market conditions. By advancing a general rule of injunctive relief subject only to rare exceptions, the Federal Circuit embraces a static vision of a patent system rooted to old paradigms.

Patents are not limited to paradigmatic discrete technologies such as mousetraps, drugs, and paper bags, where the market value of the product may be tied to a single patent. In today's complex products, economic value is distributed in thousands of patentable components and processes, but marketable products are far more than the sum of these parts. Most of their value lies in how these patentable elements are made to work together at many different levels, from code-level algorithms to interoperation among end products at a systemic level. Much of the investment and value lies in integration, interoperability, testing, and debugging. Patents do not protect this kind of value. Yet the Federal Circuit's rule on injunctive relief discounts all of this investment by putting it at risk from patents, allowing minimal investments in small pieces to ransom the large investments in putting pieces together and making products work together.

As noted above, automatic injunctive relief, the conflation of subject matter limits and utility, *see State Street*, *supra*, and a suggestion test for obviousness, *see In re Lee*, *supra*, jointly contribute to spiraling patent inflation. This inflation has changed the nature of the patent system by fomenting portfolio races, spawning trolls, and devaluing the disclosure function. At the same time, these phenomena reflect the Federal Circuit's reduction of patent jurisprudence to a smaller number of mechanically

applicable rules. In all three cases, the Federal Circuit advances a rule of uniformity at odds with an increasingly diverse and heterogeneous empirical reality.

This uniformity, which is driven by the simple "one product-one patent" paradigm of pharmaceuticals and paper bags, functions as a form of industrial policy that favors certain models of innovation – and certain sectors – over others. This policy creates a number of intensely motivated winners, including professional intermediaries who benefit from the expansion of the system, along with a larger number of less directly and immediately affected losers, including the general public. This policy also exacts a heavy toll on non-paradigmatic sectors like information technology.

The court is poorly positioned and poorly credentialed to make such policy. The Federal Circuit's current Chief Judge, the Honorable Paul Michel, candidly explained the quandary in 2002:

> We would probably be the least expert, and the least informed, and the least able to even reason from input – if we had it. . . . We just keep replicating the old results based on the old precedents, whether they have kept pace with changes in business, changes in technology, or changes of a different sort. . . . [W]e just get the Federal Circuit talking to itself, with the brief writer just being the echo of what we wrote in all those prior cases. And then we write some more cases, and the cycle just goes on and on and on. And it certainly lacks the benefit of being tightly wired to the evolving reality.[8]

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[8] Hon. Paul R. Michel, Keynote Presentation at Berkeley Center for Law and Technology Patent System Reform Conference (Mar. 1,

(Continued on following page)

The growing particularity and diversity of innovation and competition is a challenge to policymaking in general. Despite its unique oversight of patent law, the Federal Circuit is neither well equipped nor well positioned to gather empirical data and public input. It is chartered to apply the law in a limited appellate capacity, not to develop policy. Nor should it usurp the limited traditional powers of the federal district courts to fashion justice with particularity in a changing diversity of circumstance.

III. *Continental Paper Bag* Does Not Constrain The Court's Decision.

The Court has presented the question of whether it must revisit *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), regarding when an injunction is appropriate. The issue before the Court in *Continental Paper Bag* was whether a trial court had the authority to enter an injunction when the patent owner did not practice the patent; in other words, whether the court *could* issue an injunction, not whether a court *must* issue an injunction. Thus, any language that supports the notion of an automatic injunction rule – as is sometimes argued by so-called patent trolls – is mere dicta. To the extent that this Court finds it is not dicta, it was largely superseded upon the enactment of Section 283 of the Patent Act of 1952, and has been rarely cited by this Court since. If the Court should conclude, however, that *Continental Paper Bag*'s extreme view of patent law is indivisible from its holding, and that this extreme view survived

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2002) *transcription published in* Internet Patent News Service (Greg Aharonian, ed.), July 31, 2002.

the codification of the injunction rule in Section 283, then *Continental Paper Bag* should be overruled.[9]

Since the 1952 Act, this Court has relied upon *Continental Paper Bag* only twice, and even then, only for the pedestrian proposition that a patent confers the exclusive right to exclude. *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (right to exclude is "heart of [the] legal monopoly"). Indeed, it is scarcely evident that the Court ever intended to construe patent remedies as broadly as is now urged, for as early as 1923 this Court stated that "*all* that the Government conferred by the patent was the right to exclude. . . ." *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 35 (1923) (emphasis supplied).

The scarce references to *Continental Paper Bag* either before or after the 1952 Patent Act demonstrate that it represents nothing save its indisputable first principle – that a patent confers the right to exclude. This proposition is not in dispute. What is disputed is what remedy a prevailing plaintiff should receive when its right to exclude is infringed. That is, whether *Continental Paper Bag*'s conception of patents as "absolute property" presumptively entitles each patent litigant to injunctive relief, irrespective of the permissive nature of the current language in Section 283. On this matter, this Court has not endorsed Justice McKenna's dicta.

Further marginalizing the significance of *Continental Paper Bag*, Congress in 1952 rewrote the Patent Act,

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[9] CCIA does not believe such a step is necessary because of the case's irrelevance and the intervening rewrite of the Patent Act.

including the provision relevant to *Continental Paper Bag*'s disposition. Congress was undoubtedly aware of *Continental Paper Bag* in 1952, yet it too declined to otherwise endorse *Continental Paper Bag*, as is evidenced by the permissive language that a court "*may* grant an injunction." *See* 35 U.S.C. § 283 (emphasis supplied). *Accord Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (noting discretionary nature of copyright injunctions under 17 U.S.C. § 502). While *Continental Paper Bag* refers in passing to injunctive relief under a 1901 patent statute, it relies upon appeals to "absolute property" to conclude without statutory analysis that "[i]t hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation." *Id.* at 430. Yet *Continental Paper Bag* itself concedes that "[i]t may be said [that previous] cases deal only with the right of a patentee, and not with the remedy . . . And there is no case in this court that explicitly does so." *Id.* at 425. Thus, until *Continental Paper Bag*, the Court had not held injunctive relief to be mandatory, and to the extent that *Continental Paper Bag* so concluded, that conclusion rests on intuition rather than statute.

If one accepts the interpretation that *Continental Paper Bag* mandates injunctive relief, then the case cannot be viewed as binding law. If a patent injunction was statutorily permissive at the time of *Continental Paper Bag*, then its interpretation otherwise was clearly in error, and should be reversed. If *Continental Paper Bag* were correct, however, and an injunction was mandated by statute in 1908, then the decision by Congress in 1952 to make injunctive relief permissive in Section 283 – evidenced by the use of "may" – shows an unambiguous intent to erase the previous standard, and *Continental Paper Bag* along with it. Under either

interpretation, *Contienental Paper Bag* does not control the disposition of this case.

Just as *Continental Paper Bag*'s views on injunctive relief are moot, its rhetoric about the property-like nature of a patent has similarly been eclipsed. Chapter 26 of the Patent Act, which governs ownership and assignment, establishes that for purposes of assignment, and "subject to the provisions of this title," that "patents shall have the attributes of personal property." 35 U.S.C. § 261. Section 261 does not imbue patents with the attributes of personal property – much less *real* property – for purposes other than assignment. A patentee's remedies derive not from Lockean principles, but rather the precise text chosen by Congress, in careful consultation with the patent bar. *See* Giles S. Rich, *Congressional Intent – Or, Who Wrote the Patent Act of 1952* reprinted in *Patent Procurement and Exploitation* 73 (BNA 1963). Thus, it is unquestioned that "[p]atent property is the creature of statute law and its incidents are equally so and depend upon the construction to be given to the statutes creating it and them, in view of the policy of Congress in their enactment." *Crown Die, supra*, at 40. Accordingly, any suggestion by *Continental Paper Bag* that patentees were presumptively entitled to property-like remedies was extinguished in 1952, if it had ever existed.

If this Court should conclude that *Continental Paper Bag*'s relevance was not extinguished in 1952, however, then it should have no qualms about reversing any language that suggests that a district court must issue an injunction upon a finding of infringement. *Continental Paper Bag*'s error arises from its failing to distinguish between intellectual property and real property. A patent is an exclusive right conferred by the Federal Government to "promote the Progress of Science and useful Arts," U.S. Const. art. I,

§ 8, cl. 8, by "reward[ing] manufacturers for their innovation in creating a particular device." *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 34 (2001). *Continental Paper Bag* overlooks the instrumental nature of the patent right created by the Constitution, stating in dicta that "patents are property and are entitled to the same rights and sanctions as other property." *Id.* at 425. Even prior to the 1952 Patent Act, Justice McKenna's *Continental Paper Bag* opinion was criticized as "a radical departure" from constitutional theory. *Special Equip. Co. v. Coe*, 324 U.S. 370, 382 (1945) (Douglas, J., dissenting). "It is a mistake," Justice Douglas wrote, "to conceive of a patent as but another form of private property. The patent is a privilege conditioned by a public purpose." *Id.* (internal quotation omitted).

Nevertheless, *Continental Paper Bag*'s unfortunate dicta continues to perpetuate a myth that, rather than being a bundle of "carefully defined and carefully delimited interests to which the law affords correspondingly exact protections," *Dowling v. United States*, 473 U.S. 207, 216 (1985), intellectual property is actually real property, and that infringement is therefore theft – a proposition which this Court has squarely rejected. *Id.* at 217-18.[10]

Where a rights-holder's interest in preventing infringement of its intellectual property rights "may be

[10] Equating intellectual property to real property dictates a parade of perverse results that run contrary to current law. Under such reasoning, an inventor – not just a manufacturer – could bear strict product liability for a foreseeable misuse of an invention (as opposed to an actual product). Such reasoning could inspire state taxation of intellectual property rights, and could inspire claims of "abandonment" against unused patents and copyrights.

adequately protected by an award of damages for whatever infringement is found," an injunction need not issue. *Campbell, supra* at n.10. Insofar as this Court reads *Continental Paper Bag* to hold that the Federal grant of a patent necessarily endows a rights-holder with a presumptive remedy of injunctive relief, *Continental Paper Bag* is inconsistent with previous holdings of this Court, and therefore should be overruled.

CONCLUSION

In sum, the Federal Circuit's standard for injunctive relief does not operate in a vacuum. In information technology, it provides an inordinately powerful weapon in a landscape of uncertainty. A litany of interrelated phenomena – low quality, portfolio racing, high transactions costs, widespread inadvertent infringement, and opacity of patent information – make producers in this sector exceptionally vulnerable to claims of patent infringement. Automatic injunctive relief magnifies their exposure, making those producers that contribute the most value to the marketplace the most vulnerable to catastrophe.

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